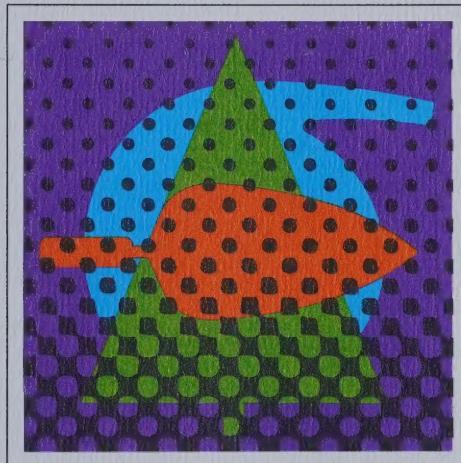


DONATAR

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ANNUAL
REPORT
1970

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DOMTAR LIMITED
HIGHLIGHTS

MAR 25 1971

	1970	1969
Sales	\$484,937,840	\$464,803,162
Income taxes — Current	\$ 10,350,000	\$ 9,904,156
Income taxes — Deferred	\$ (1,084,000)	\$ 2,081,038
Net income	\$ 17,617,645	\$ 20,003,107
Common shares outstanding	14,827,300	14,827,300
Earnings per common share	\$ 1.17	\$ 1.33
Dividends per common share	\$ 0.70	\$ 0.60
Working capital	\$132,024,614	\$146,675,359
Cash flow — Total	\$ 42,779,065	\$ 47,084,145
Cash flow — Per common share	\$ 2.86	\$ 3.16
Expenditures on plant (net)	\$ 38,964,137	\$ 24,609,131
Book value per common share	\$ 15.87	\$ 16.40
Number of preference shareholders	1,384	1,393
Number of common shareholders	42,112	45,142
Number of employees	18,561	18,608
Payroll and Benefits	\$159,748,000	\$145,719,000

DIRECTORS AND OFFICERS

Directors

*T. N. Beaupré, Montreal,
Chairman of the Board and President, Domtar Limited

Ralph W. Cooper, Hamilton,
President, Cooper Construction Company Limited

*H. Roy Crabtree, Montreal,
Chairman and President, Wabasso Limited

George H. Dobbie, Galt,
President, The Dobbie Industries Limited

J. E. L. Duquet, Q.C., Montreal,
Senior Partner in the legal firm of Duquet, MacKay,
Weldon, Bronstetter, Willis and Johnston

*A. L. Fairley, Jr., Montreal,
President and Chief Executive Officer, Hollinger Mines Limited

C. L. Gundy, Toronto,
Chairman, Wood Gundy Securities Limited

Roger T. Hager, Vancouver,
Chairman of the Board and Chief Executive Officer,
The Canadian Fishing Company Limited

J. G. Kirkpatrick, Q.C., Montreal,
Partner in the legal firm of Ogilvy, Cope, Porteous,
Hansard, Marler, Montgomery & Renault

Camille Lacroix, St. Romuald, Quebec,
President, Matapedia Company Limited

Roger Létourneau, Q.C., LL.D., Quebec,
Senior Partner in the legal firm of Létourneau, Stein,
Marseille, Delisle & LaRue

*A. Bruce Matthews, C.B.E., D.S.O., Toronto,
Chairman, The Excelsior Life Insurance Company

*John A. McDougald, Toronto,
President, Argus Corporation Limited

*Maxwell C. G. Meighen, O.B.E., Toronto,
Chairman, Canadian General Investments Limited

Nathan Pitcairn, Jenkintown, Pa.,
Director, The Pitcairn Company

*Arthur Ross, New York,
Executive Vice-President and Managing Director,
Central National Corporation

*J. N. Swinden, Toronto,
General Manager, Argus Corporation Limited

*E. P. Taylor, C.M.G., The Bahama Islands,
Chairman, The New Providence Development Company Limited

J. Thomas Timmins, Montreal,
President, Chromium Mining & Smelting Corp. Ltd.

*Colin W. Webster, Montreal,
Vice-Chairman of the Board, Canadian Fuel Marketers Ltd.

Officers

T. N. Beaupré,
Chairman of the Board and President

P. Delagrave,
Vice-President – Employee and Public Relations

S. A. Kerr,
Vice-President and Secretary

J. P. Lunderville,
Vice-President – Engineering, Purchasing and Transportation

R. J. Moyse,
Vice-President – Finance

G. H. Tomlinson,
Vice-President – Research and Environmental Technology

J. H. Smith,
Controller

E. G. Aust,
Assistant Treasurer

A. Gascon,
Assistant Secretary

J. H. Rennie,
Assistant Controller

Group Presidents

J. Cochran – Domtar Construction Materials Ltd.
A. D. Hamilton – Domtar Pulp & Paper Products Ltd.
A. Monsaroff – Domtar Chemicals Limited

Head Office

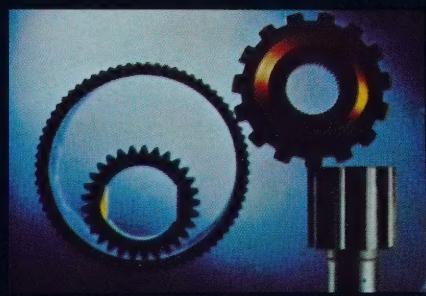
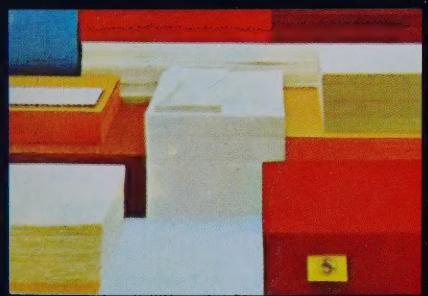
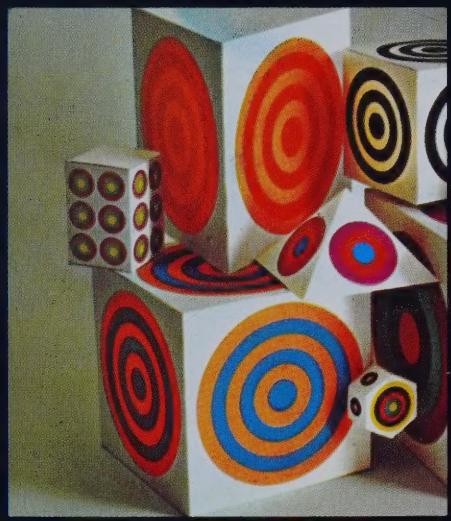
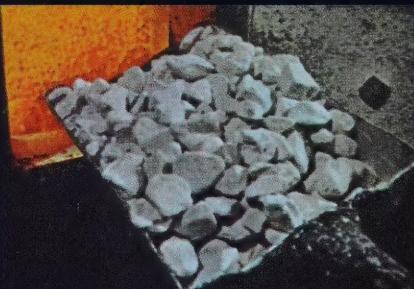
395 de Maisonneuve Blvd. West, Montreal 111, Que.

Transfer Agents

for preference and common shares:
Montreal Trust Company – Halifax, N.S.; Saint John, N.B.;
Montreal, Que.; Toronto, Ont.; Winnipeg, Man.;
Regina, Sask.; Calgary, Alta.; Vancouver, B.C.
for common shares only:
The Bank of New York – New York, N.Y.

Registrars

for preference and common shares:
The Royal Trust Company – Halifax, N.S.; Saint John, N.B.;
Montreal, Que.; Toronto, Ont.; Winnipeg, Man.;
Regina, Sask.; Calgary, Alta.; Vancouver, B.C.
for common shares only:
The Bank of New York – New York, N.Y.



REPORT OF THE DIRECTORS TO THE SHAREHOLDERS

The consolidated financial statements of Domtar Limited and its subsidiaries for the year ended December 31, 1970 and the report of the Auditors are submitted on behalf of your Board of Directors.

Sales and Profits

Net income after all charges amounted to \$17.6 million, or \$1.17 per common share, as against a restated figure for 1969 of \$20.0 million, or \$1.33 per common share. Cash flow totalled \$42.8 million in 1970 compared with \$47.1 million for the previous year.

Despite higher sales, profits were adversely affected by the continued rise in costs, the increase in the value of the Canadian dollar in terms of foreign currencies and the declining trend of economic activity, particularly in the United States and Canada.

Consolidated sales reached a new high of \$484.9 million, an increase of \$20.1 million over 1969. The following table gives a brief summary of sales by main product groups:

	1970		1969	
	\$ Millions	%	\$ Millions	%
Pulp and Paper	\$335.7	69.2	\$310.1	66.7
Construction Materials	80.5	16.6	90.7	19.5
Chemicals	68.7	14.2	64.0	13.8
	<u>\$484.9</u>	<u>100.0</u>	<u>\$464.8</u>	<u>100.0</u>

Compared with 1969, there was an appreciable increase in the profits of the Pulp and Paper company due, for the most part, to greater sales of fine papers and pulp. Operations in the pulp mill at Lebel-sur-Quéillon, Quebec, continued to show an encouraging improvement. The Packaging company again recorded a healthy increase in profits. These gains were partially offset by lower newsprint shipments due to slow growth in demand coupled with increases in world capacity. The financial performance of the Pulp and Paper company was markedly impaired by the change in the foreign exchange rates for the Canadian dollar.

The Construction Materials company suffered a sizeable decline in profits. Mortgage rates were relatively high, money continued to be scarce and the volume of construction activity was low although it began to revive during the latter part of the year.

The profits earned by the Chemicals company were lower than those of last year largely because of the decrease in the level of business activity.

The unremitting rise in costs, particularly wages, salaries and related fringe benefits, continued in all segments of the company. A persistent pressure on profit margins was generally experienced despite some price increases and the company's efforts to offset higher costs through improved operating efficiencies. Emphasis has been, and continues to be, placed on capital expenditure programs aimed at the reduction of costs although an increasing portion of the company's available capital is of necessity being diverted to end-uses which provide little or no return on investment such as pollution abatement and increasing requirements by the insurance industry for better protection of assets.

Investment Income

Investment and sundry income at \$6.7 million was \$437 thousand below the revenue derived from similar sources in 1969. For the most part, the decrease was the result of having less surplus funds for investment in the money market.

Income Taxes

The effective consolidated income tax rate for 1970 approximated the 1969 rate; the lower provision of \$9.3 million for current and deferred income taxes in 1970, compared with \$12.0 million in 1969, reflects the lower taxable earnings realized in 1970.

During the year, the company reached an agreement with the Federal Department of National Revenue regarding the treatment under the Canadian Income Tax Act of the tax-exempt income of the pulp mill and chemical plant at Lebel-sur-Quéillon and the No. 7 machine in the fine paper mill at Cornwall, Ontario. As a result, the earnings for 1969 and prior years have been restated and corresponding adjustments have been made to earned surplus. While the earnings from the

No. 7 machine were subject to income tax for the whole of 1970, those from the Quévillon operations did not become fully taxable until October, 1970.

Earned Surplus

In the Report of the Directors to the Shareholders for 1969, reference was made to the company's new depreciation policy which became effective January 1, 1970.

The balance sheet items of depreciation and deferred income taxes and the consolidated statement of earned surplus for the year ended December 31, 1970 reflect certain adjustments arising from the implementation of this policy. These are described briefly in the Notes to the Financial Statements.

At December 31, 1970 the company no longer included in its consolidated accounts any amounts relating to the excess of the cost of the acquisition of shares of subsidiaries over the book value of their net assets. All such amounts have been written off with the introduction of the new depreciation policy and through a charge against earned surplus of \$3.6 million relating to the three companies acquired in 1970.

Acquisitions

During the year three companies engaged in businesses similar to those currently operated by the company were acquired through the purchase of shares. Northwest Wood Preservers Ltd. was acquired on January 1; it is located in Dawson Creek, British Columbia and operates a wood preserving plant and a small sawmill. On May 1, Domtar purchased Buntin Reid Paper Co. Limited, the largest independent fine paper merchant in Canada. It has offices in Toronto, Ottawa and London, Ontario. On August 1, the company acquired the remaining shares of Superior Box Limited which manufactures boxes at Kitchener, Ontario.

Dividends

In 1970, the company paid the regular dividend of \$1.00 per preference share. Common shareholders received their regular dividend of 60 cents plus an extra 10 cents per common share. Canadian holders of the common and preference shares are again entitled under the Canadian Income Tax Act to a 10% depletion allowance on dividends received by them in 1970.

Funded Debt

Total funded debt outstanding at December 31, 1970 amounted to \$142.3 million, a decrease of \$6.5 million from the amount outstanding at the end of last year. In line with its policy of attempting to purchase its funded debt in anticipation of redemptions, the company has purchased virtually all its sinking fund requirements for 1971.

Fixed Assets

Net additions to fixed assets amounted to \$39.0 million compared with \$24.6 million in 1969 and \$10.1 million in 1968. Some details of the major projects are set out in the Report on Operations. Capital expenditures for 1971 are currently estimated to be about \$35 million.

Working Capital

The working capital position remains healthy with a ratio of current assets to current liabilities of 3.2 to 1. The reduction of funds tied up in pulpwood inventories continued throughout the year. As a result of the substantial outlays made in 1970 for fixed assets and acquisitions, the company's liquid position declined with the "quick assets" (cash, short term investments and receivables less all current liabilities) decreasing from \$57.6 million at the end of 1969 to \$35.1 million at December 31, 1970.

Organization

As part of the company's continuing efforts to establish efficient and accountable organizational structures, Domtar's packaging operations were consolidated effective May 1, 1970 into Domtar Packaging Limited under the direction of W. R. Lawson as Vice-President and General Manager.

Another significant change was the establishment of the Environmental Technology Section under Dr. G. H. Tomlinson, Vice-President — Research and Environmental Technology. The creation of this section to coordinate and provide leadership for the pollution abatement activities throughout Domtar recognizes the importance of matters relating to environment and the necessity of organizing the company's talents and facilities in this area to achieve effective results.

1970 Sales Distribution by Market Area

	Other	7%
	U.S.A.	18%
	Canada	75%



Labor Relations

Sixty-three collective agreements, including the majority of those in the pulp and paper companies, were concluded at an average increase in cost level well in excess of the guideline of 6% suggested by the Prices and Incomes Commission. Company efforts to resist excessive union demands resulted in a total of five legal strikes with a loss of 13,576 man-days. With the exception of Fine Papers, agreements in the primary pulp and paper mills run for three years, terminating in early 1973.

The Domtar Industrial Conversion Plan is being applied to assist approximately 175 employees to be affected by the closure in 1971 of two facilities in the Construction Materials company. This will bring to a total of 274 the number of employees assisted by this Plan since its inception in 1969.

Personnel Administration

Significant changes were introduced in the group insurance and pension plans for staff and unionized employees. The integration of personnel information by means of computer systems was undertaken and personalized statements of benefits were sent to employees.

The management position evaluation program was virtually completed during the year and company-wide salary administration procedures were introduced. Measures continued to be taken to assist personnel development in the management area.

Safety

Notwithstanding the continuing emphasis on safety practices and related training and procedures, it is regretted that the company recorded a total of five fatalities compared with three in 1969 and 358 lost-time accidents against 298 in 1969.

Research

During the past year, the Central Research Department continued to provide assistance to the Operating Companies in the areas of cost reduction, process improvement, product development and pollution abatement. This work has led to an increase in profitability.

At the same time, a substantial level of long term research has been maintained on the development of new products and processes. A new process for wood preservation which produces a clean, paintable surface has been investigated on a pilot plant scale at Senneville, Quebec and is now undergoing full scale plant trials at Trenton, Ontario. Research, carried out in co-operation with the Construction Materials company, has led to the development of two new building products: a lightweight cellular concrete panel which is now being marketed under the trade name "Toughtex"; and an additional office partition system which will be marketed in 1971.

Pollution Abatement

Much has been accomplished in reducing pollution through in-plant changes which have resulted in some improved efficiencies. The emphasis has now changed to the second phase where external treatment will be used. To comply with present regulations, bark fines, fibre fines and filler clay, which have little or no value, must be removed from the effluent. This requires major installations, such as clarifiers, to separate out the solids as a sludge which must be burned or used for land fill. As an example, a clarifier is presently being installed at the Trois-Rivières mill at a cost of about \$1.5 million and studies are now under way for similar installations at other mills. Preparing for the next stage, a research project is being carried out at the Cornwall mill to identify and eliminate any deleterious effect from pulping operations on the taste and odor of water and fish. This project, which is being co-ordinated with government experts and supported by a Federal financial assistance grant, has implications and usefulness in other mills throughout the company and the pulp and paper industry.

It is difficult to make a reliable forecast of the requirements and necessary expenditures for future pollution abatement measures as government standards are continually changing with the acquisition of new technical and scientific knowledge. Another problem is that the standards differ not only between the provinces but also between these and the Federal government.

During 1970, over \$5 million was spent on pollution control. The current forecast is that the governments could require us to spend over \$40 million by the end of



Distribution of Income Dollar

Pulpwood Inventories and Advances for Pulpwood Operations (Millions of Dollars)



1975. These demands must be balanced against the other pressing needs for capital funds to maintain the viability of the operations of the company. While the company acknowledges and accepts the objectives of governments regarding pollution control, it does have some reservations with respect to the time within which monies must be spent in order to achieve those standards. Because of the pressing demands for capital coupled with the present level of scientific and technical knowledge in this area, prudence might suggest a more moderate rate of expenditure.

Details of some of the expenditures made or approved in 1970 for pollution control are referred to in the Report on Operations.

Board of Directors

As a result of the company's policy with respect to an age limit for Directors, Mr. E. P. Taylor, C.M.G., will not be standing for re-election as a Director at the 1971 Annual Meeting of Shareholders. Mr. Taylor joined the Board on July 20, 1948 and was its Chairman from April 3, 1951 until January 25, 1966. He also served as Chairman of the Executive Committee of the Board from its inception on November 2, 1949 until May 17, 1966. Particular thanks are extended to Mr. Taylor, who participated actively in the affairs of the company, for his many years of distinguished service.

It is with great regret that we record the death on October 31, 1970 of Mr. Raymond Dupuis, Q.C., a member of the Board since February 28, 1949. The Directors extend their deepest sympathy to his bereaved widow and family.

It is proposed that the number of Directors be reduced from 21 to 20 and that Mr. Alex E. Barron, Chairman of the Board of Canadian Tire Corporation Limited, be elected to fill the vacancy.

Prospects for 1971

Present economic conditions suggest that little improvement can be expected in the general level of business activity during the first half of 1971; moderate and accelerating gains should occur during the latter half.

In such circumstances only a modest increase in earnings before income taxes is currently anticipated from the Pulp and Paper company during 1971. The outlook for newsprint and market pulp is particularly uncertain in view of the strength of the Canadian dollar in international exchange markets and the continuing imbalance between the supply and demand for these commodities. As the company has some spare capacity in newsprint and certain pulps, an upswing in business activity, such as might occur in the second half of the year, could have an appreciable effect upon the financial results for 1971. Operations in both the pulp mill and chemical plant at Lebel-sur-Quévillon are expected to improve because of better operating efficiencies and greater output.

Prospects for the Construction Materials company appear favorable, particularly in residential construction. Governments are encouraging housing, especially low income housing, mortgage rates have declined and mortgage funds appear to be more generally available. Accordingly, the company is expected to record a substantial advance in 1971.

The Chemicals company, which had a relatively static year in 1970, should resume its normal growth in 1971. Moderate gains in earnings are anticipated.

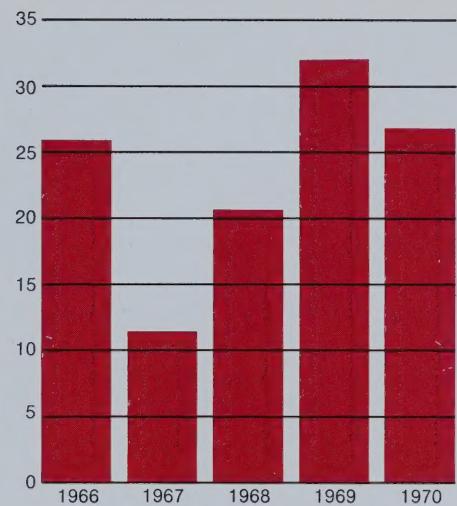
Appreciation

The Directors wish to record their sincere thanks to all those employees whose interest, loyalty and industry helped to contribute to the results achieved in a difficult year.

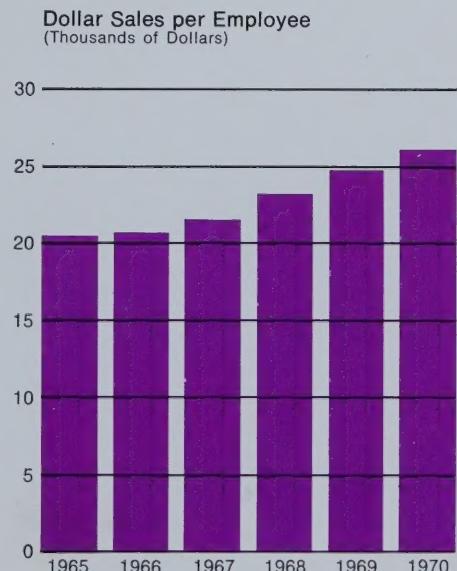
On behalf of the Board

T. N. Beaupré

T. N. Beaupré
Chairman of the Board and President,
Montreal, Quebec, March 12, 1971



Pre tax Profits 1966 to 1970 inclusive
(Millions of Dollars)



Dollar Sales per Employee
(Thousands of Dollars)



A load of spruce arriving at the
Lebel-sur-Quévillon, Quebec pulp mill.



DOMTAR PULP & PAPER PRODUCTS LTD.

Domtar Woodlands Limited

A. S. Fleming

Vice-President and General Manager

In 1970, the emergence of ecological awareness at an accelerated pace in Canada had its impact on the company so that considerable time was spent explaining the need for intelligent forest management and re-evaluating company practices. However, it is clear that having been entrusted with such an important natural resource as our forests, professional foresters have a duty to acquaint the public with the positive aspects of their activities. Wood is a most useful raw material in a social system that emphasizes a high degree of physical comfort and decent surroundings for every person. Accordingly, any trend to prohibit or limit the application of sound management practices to commercial woodlands is a threat to this system.

The greatest problem is to avoid emotionalism, which tends to distort common sense, and to continue to communicate the facts that the forest and its products contribute much to the improvement of the quality of the environment and, under proper management, little to ecological pollution. It is on the basis of this philosophy that the company is tackling the problem in active co-operation with the provincial governments.

Total fibre deliveries to Domtar's nine wood consuming mills remained approximately the same as in 1969 at 2.3 million air dry tons. Mill consumption was up 10% with the result that inventories were reduced by a further \$3.7 million (13%) in 1970. The use of sawmill residues and hardwoods continues to increase.

The downturn in the economy dictated that a cutback be made in capital expenditures including investment in mechanical logging equipment which is so vital for cost reduction. However, the flexibility of the mills enabled them to accept lower quality fibre, such as sawdust and shavings, in greater quantities with no loss in quality or production efficiency, thereby maintaining the average cost of wood in 1970 at the same level as in the previous year.

Domtar Newsprint Limited

W. D. Davidson

Vice-President and General Manager

World newsprint supply increased substantially during 1970 which saw the bringing into full operation of the one million tons of capacity planned and installed during the preceding six years in the United States. The capacity of the mills in that country now exceeds that of the Scandinavian producers.

Market demand outside North America expanded considerably but demand in the company's traditional home markets decreased. Canadian mills are at a freight disadvantage in serving significant segments of the expanding off-shore markets. The growing capacity of the mills in the United States and the reduction of newsprint demand relative to world capacity caused Canadian suppliers to experience lower operating rates. Mills in the United States operated at 97.9% of capacity and in Scandinavia at 92.5%, whereas in Canada the rate was only 87.2% or about the same as the company's.

Improved performance in the overseas markets and continuing strong sales of groundwood specialties and publication grade coated papers, which represented about 15% of total sales in 1970, partially offset disappointing newsprint sales in the United States. The demand for high brightness uncoated groundwood printing grades, sold under the trade name "Dombrite" and used for pocket books and magazines, continued high in 1970.

Production of sulphite pulp in 1970 increased significantly over 1969. Full operation in 1971 of the unbleached market sulphite pulp operations at Donnacona and Dolbeau, Quebec is forecast.

The unpegging of the Canadian dollar from the fixed exchange rate, which had prevailed since 1962, had a major effect on profits of the Canadian newsprint industry. The bulk of the company's capacity is committed to markets where selling prices are quoted in U.S. dollars. The price increase of \$5 per ton instituted at the beginning of 1970 was less than the profits lost due to this monetary action. Increases in the costs of labor, materials and transportation are out-pacing increases in the sales realization of all products, a matter which is of grave concern to the industry.

This swirling mass of cellulose pulp is being dyed for the production of colored grades on the paper machine.



The two projects to increase production capacity, referred to in last year's report, were completed during the year. The No. 3 paper machine in the Donnacona mill was speeded up and is now able to produce an additional 12 thousand tons of newsprint and specialty grades annually. At Dolbeau, higher machine speeds and improved operating efficiencies increased capacity and resulted in new average daily and monthly production records. Early in 1970, an expenditure of \$2 million was approved for the manufacture of high brightness groundwood grades at Donnacona. The new facilities will come on stream in the latter part of 1971, at which time the manufacture of these grades will be transferred from Trois-Rivières, Quebec to Donnacona.

Cost reduction programs were continued at all mills. These were highlighted by the conversion of the steam boilers in the Dolbeau mill from coal to oil firing in order to effect a substantial savings in the cost of fuel and by the installation of an automatic roll wrapping machine at Donnacona.

The continuing research program was concentrated primarily on three projects: the printability of offset newsprint, the improvement of publication grade coated papers and the development of a mechanical pulp mill control system. These projects are all expected to contribute to the improvement of product quality and competitive position.

Principal Products:

Standard and specialty newsprint; coated publication grade and directory papers; and sulphite pulp.

Domtar Fine Papers Ltd.

J. H. Robertson

Vice-President and General Manager

The year 1970 was an encouraging one from a sales point of view with many areas reporting increases. However, it was a most frustrating period since profits were severely influenced by the continuing effects of the Kennedy Round tariff agreement and, more particularly, the freeing of the Canadian dollar. These two factors brought about much greater competitive selling in Canada by United States mills. In addition, increases in the costs of doing business, such as for labor and pollution control, and difficulties in raising selling prices prevented the achieving of profit levels which, in the normal course, ought to have been realized. These additional costs could not be wholly offset by price increases as competition from domestic and foreign papers limited price adjustments. Summing up, the year was one of careful and continual guarding of the profit position opposite a wide variety of discouraging circumstances.

Export sales to the overseas markets increased to the highest level on record; shipments were made to over 70 countries on five continents. The program of developing increasing sales to the highly competitive United States market was successfully continued in 1970. The reorganization and consolidation of the Marketing Group for that country should result in higher sales in 1971.

In 1970, Domtar acquired ownership of Buntin Reid Paper Co. Limited, Canada's largest independent fine paper merchant with operations in Toronto, London and Ottawa, Ontario. Every effort will be made to promote the continuing growth of this very successful paper merchant. The acquisition of Buntin Reid together with the existing group of Trading Branches in Eastern Canada means that Domtar enjoys a strong position in the Canadian fine paper merchant field through which a large volume of its manufactured products are distributed.

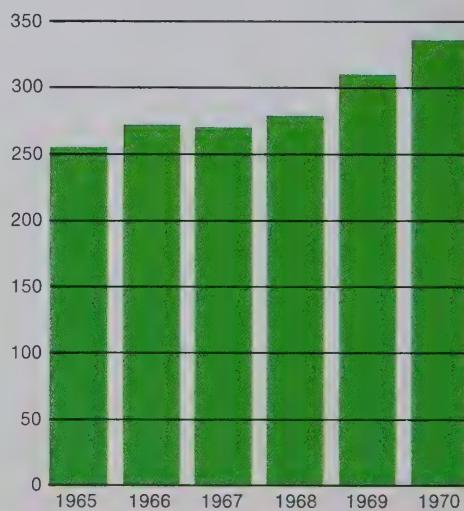
In the United Kingdom, the company also operates a number of merchant branches. After some difficult years, this group is now operating on a profitable basis. The London operation will be moving from its present ancient warehouse into a much more modern one early in 1971. The merchant operation in the United Kingdom distributes a large percentage of fine papers from the company's mill in Sunderland as well as a growing tonnage from its Canadian mills.

The policy of up-grading and modernizing the manufacturing mills was continued in 1970. The major capital projects at Cornwall, Don Valley and St. Catharines, Ontario, which were started in 1969, were completed during the year. Appropriations were approved to spend \$275 thousand on the modernization of the paper machines in the Beauharnois, Quebec mill and \$400 thousand on a program at the Sunderland mill to speed up the two paper machines and install modern precision



A section of the finishing and storage area at the Cornwall, Ontario fine papers mill.

Pulp & Paper Products Sales
(Millions of Dollars)



sheet cutting and automatic packaging in the finishing room. These programs will not only increase production but also give customers better quality paper and service.

Three pollution control projects were approved in 1970. The major one is at Cornwall where the Ontario Water Resources Commission approved a plan, the total cost of which will be about \$3 million, for the installation of facilities to reduce substantially the effluent materials entering the St. Lawrence River from the mill at that location. The second is at St. Catharines where primary treatment facilities are being put in at a cost of over \$300 thousand. Also at St. Catharines, the steam boilers are being converted at an estimated cost of about \$300 thousand from coal to oil firing in order to reduce the emission of particulate matter into the atmosphere. This latter expenditure will produce some savings.

During 1970, the responsibility for the operations of the pulp and paper mill at Windsor, Quebec was transferred to the company. This brought to seven the number of mills under its jurisdiction. The integration of the productive facilities at Windsor will round out those of the present organization and develop a greater future potential for Windsor and its employees.

A research program was carried out by the Central Research Department on behalf of the company. For the 1970 program, the major emphasis was directed toward the manufacturing mills. Improved processes, machinery modifications, new instrumentation techniques, product quality up-grading at increased production rates, and new products were the beneficial results achieved, all of which had a significant favorable impact on profits.

Principal Products:

Fine, specialty and coated papers for the printing trade and business, including rag and sulphite bonds, ledgers and envelope papers; lightweight and duplicating papers; book and writing papers; litho, offset and text papers; coated papers and boards; black line, blueprint, carbonizing and drawing papers; cigarette papers; banknote and safety cheque papers; construction and poster papers for schools; and glassine and grease-proof papers for food packaging.

Domtar Packaging Limited

W. R. Lawson

Vice-President and General Manager

In the face of intense competition due to overcapacity in all facets of the packaging industry in Canada, sales in 1970 increased by approximately 7% over the 1969 results. An outstanding characteristic of the year's operation was the steep rise in wages. While labor relations generally were sound — with the exception of one strike at the corrugated box plant in Calgary, Alberta — the company nonetheless faced extraordinarily high increase in wage costs which followed the general patterns established in Canadian industry.

The year 1970 featured the acquisition of Superior Box Limited of Kitchener, Ontario. This fine company has for many years served the market in Southwestern Ontario. The business integrates ideally into the operations of the Corrugated Products division in Ontario and brings the total of corrugated container plants in Canada to nine. It is believed that the Packaging company is now the largest manufacturer of corrugated boxes and other related products in Canada.

The company's paper mills manufacture very significant percentages of the total Canadian output of kraft papers used principally in paper bags and wrappers, of containerboards for corrugated boxes, and of box boards used in smaller boxes and cartons. These mills supply the company's packaging plants and sell the balance of the output to other companies in Canada.

The profit improvement and pollution abatement plan at the Red Rock mill, for which \$18.3 million was approved in 1969, got underway early in 1970. The first phase will be completed in the first quarter of 1971 and will lower costs significantly, increase capacity, reduce air and water pollution and provide a use for waste sawmill materials. The second phase, the installation of major water pollution abatement devices, will complement work already done in this area and enable the mill to meet the effluent quality standards established by the Ontario Water Resources Commission. The work is scheduled for completion in 1972.

Facilities installed at the East Angus, Quebec mill at a cost of about \$1.7 million for the manufacture of corrugating medium will come on stream in the first quarter of

Colorful shopping bags are but one of the dozens of converted paper products from Domtar Packaging Limited.



1971. The production from this unit will supplement the medium made at the Trenton mill and provide a measure of diversification to the product mix at East Angus. Near the end of the year, about \$500 thousand was approved for the treatment of the effluent from the Trenton mill.

The Converted Papers division continued to show steady growth in the markets which it serves. Among its principal products are kraft paper bags and wrappings which find their way into various phases of the retail trade, including supermarket check-out sacks, flat and millinery bags for department stores, wrapping paper and paper towelling. It is necessary to operate aggressively in this very competitive business in order to ensure a captive market for a large part of the output of the company's kraft paper mills.

All elements of the company are working in close collaboration with the Research Department on activities to enhance performance and profitability through product and process improvement. Improved plastic linings for fibre oil can production and process and quality improvements in the basic cylinder boxboard production illustrate the program.

Principal Products:

Linerboard, corrugating medium, corrugated shipping containers, kraft papers and boxboards for conversion; packaging and wrapping papers for the consumer trades; grocery and other paper bags; towelling and tissue products; folding cartons; and fibre cans and tubes.

Domtar Pulp Limited

G. G. Flater
Vice-President and General Manager

The picture for pulp was one of continued improvement in the first half of 1970. There were much needed price increases in January and July as world market pulp demand and supply was in balance for all grades. Gradual improvement of the operations at Lebel-sur-Quévillon was apparent. In the second half, these benefits were offset by three negative factors. The effect of the freeing of the Canadian dollar significantly decreased the profit on all pulps as 80% of sales are paid for in U.S. dollars. Secondly, in June, the Quévillon mill labor agreement came up for renewal. In view of low profit margins and the Government's attempts to curb inflation, wage increases at approximately the guideline level were proposed. This proposal was unacceptable to the union which struck the plant in August. Operations resumed after an 18-day shutdown. Finally, in the last quarter, there was a slackening in demand for some grades of pulp.

A total of 297,400 tons of market pulp was sold in 1970 compared to 294,800 tons in the prior year.

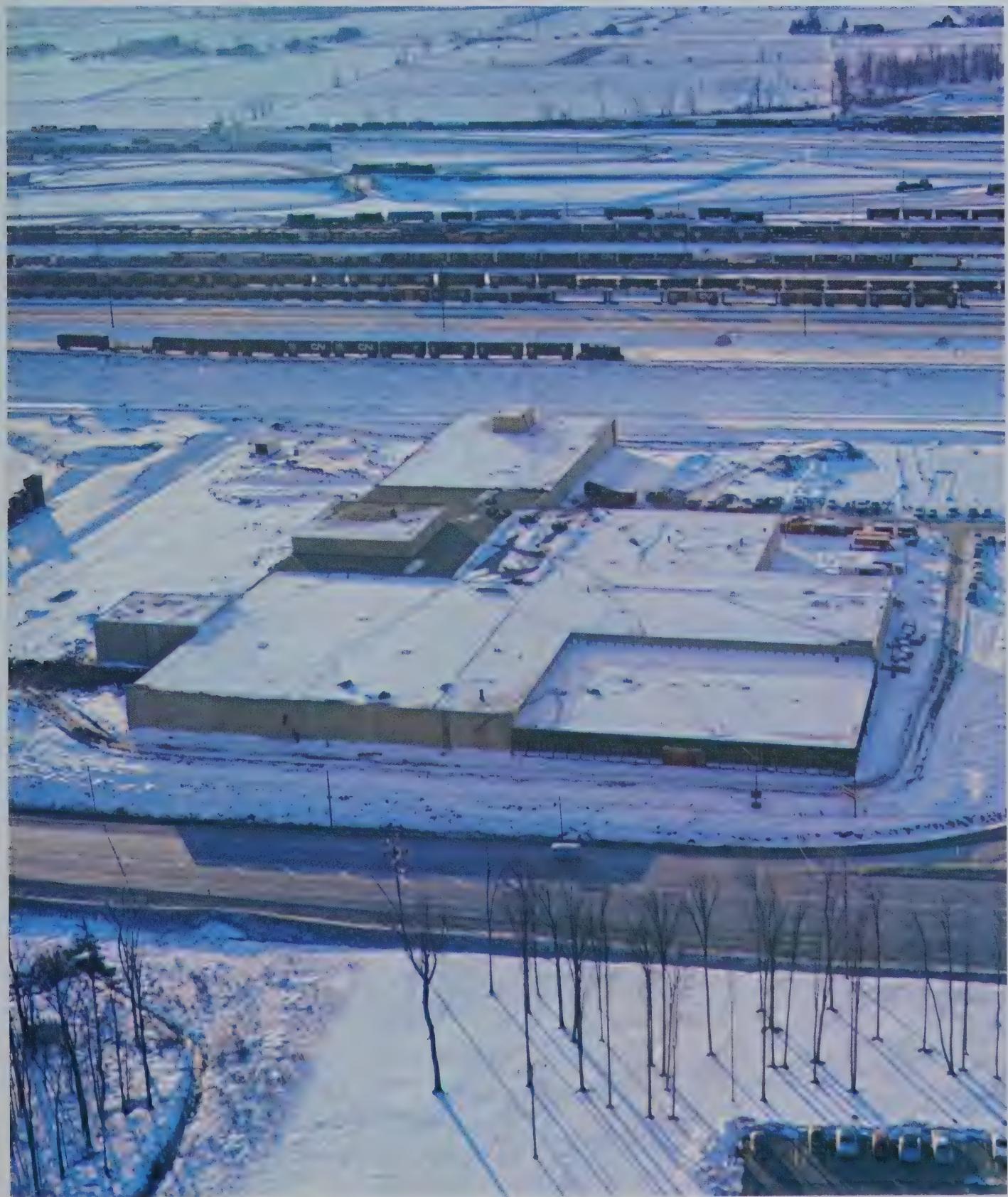
Current research programs in the pulp area include the evaluation and use of fibres other than from wood, improvements in wood yield and pollution abatement projects.

At Lebel-sur-Quévillon, the mill was able to meet the requirements of the Quebec Water Board with respect to the amount of suspended solids discharged in the effluent. Improvements are now underway to meet future requirements. In 1970, the potential health hazard of mercurial compounds in effluents through their effect on fish was identified. As the chemical plant employs mercury in the manufacture of chlorine and caustic, immediate steps were taken to prevent the carry-over of mercury into the pulp or into the mill effluent. Investigations will continue in 1971 in co-operation with the Quebec Water Board and Federal authorities to further ensure the protection of the environment against this potential hazard.

Principal Products:

Bleached and unbleached softwood and hardwood sulphate pulp; semi-bleached softwood sulphate pulp; and unbleached sulphite pulp.

The new plant of the Arborite Division of Domtar Construction Materials Ltd. is under construction in Vaughan Township, north of Toronto. It is scheduled to begin production in July, 1971.



DOMTAR CONSTRUCTION MATERIALS LTD.



The lackluster performance of the Canadian economy during 1970, which reflected the impact of monetary and fiscal policies, was significantly adverse to the building construction industry. Tight money conditions and the resulting higher interest rates restricted the availability of mortgage funds, particularly for residential and institutional construction. Notwithstanding the acceptance of housing as a priority item by the Federal Government and their commitment to a minimum of one million units over the next five years, housing starts in the first nine months of the year were only 120,000 units. As disappointing as this was, it was only achieved as a result of a continuing active financing program by Central Mortgage and Housing Corporation. The \$200 million program sponsored by the Honourable Robert Andras, the Federal Minister responsible for Housing, for innovative concepts for low income housing offered a challenge to the house builders which resulted, through the co-operation of several municipalities, in some cost reductions due principally to improved land utilization. The heavy direct lending program undertaken by CMHC in the third quarter of the year accounted for a sharp pick-up in activity with starts in the fourth quarter reaching 70,000 units, a record level for this period of the year. The 190,000 starts with the increasing demand for shelter falls considerably short of the 210,415 starts in 1969. It is encouraging, however, to note that the current government program is enabling a larger percentage of Canadians to achieve home ownership.

Total building contract awards declined 6% in dollar value from 1969 but, taking inflation into account, the physical decline was about 12%. The most significant inflationary factor was in construction wage rates which increased about 14% above 1969 levels. Construction trades work stoppages in Quebec and British Columbia, occurring during the normal period of peak activity, seriously affected market demand. The accreditation program being undertaken by most provinces to rationalize labor negotiations in the construction industry hopefully will eliminate the past whipsawing and result in more equitable wage settlements.

In this environment, it was not unexpected that results would be disappointing. Sales were 11% below those in 1969 with, however, a significant comparative improvement being recorded during the last quarter. The industry is unanimous in stating that the cyclical nature of construction activity is far and away its most serious problem. This is not only applicable to the swing from year to year but also of concern within any one year. Stability with a progressive growth rate is required to achieve any appreciable improvement in productivity and efficiency across all segments of the industry.

Profits were adversely affected not only by the drop in volume but also the inability to recover revenue through price increases sufficient to offset rising material, freight, wage and salary increases. Indeed, price reductions were necessary on some product lines in order to meet competitive conditions and maintain volume and market participation. The nine week strike at the company's Montreal East gypsum plant markedly affected sales and profits of this product line.

Continuation of the profit improvement program resulted in the announcement of the phasing out of operation in 1971 of the high cost periodic kiln clay brick facilities at Cooksville, Ontario and the Montreal sand lime brick plant. Shutdown of these plants will ensure that the Company's other brick plants will operate at a higher level of capacity and efficiency.

The expanded gypsum wallboard facility at New Westminster, British Columbia, was successfully brought on line at mid-year with the achieved capacity increase being well above expectations.

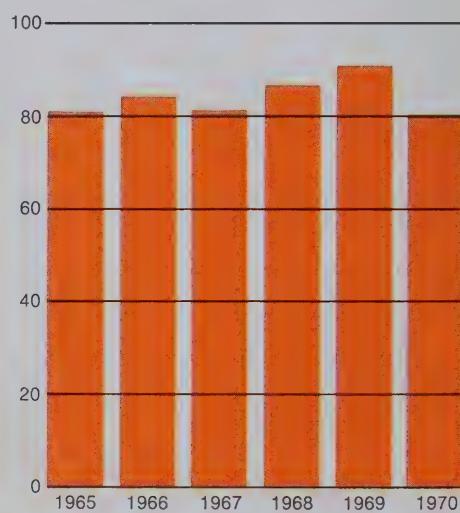
Construction of the \$2 million Perlite non-combustible roof insulation board plant at Cornwall is progressing on schedule with start-up planned for the second quarter of 1971.

Operations in the Arborite division reflected the company's problem with imports which, as a result of the revaluation of the Canadian dollar, challenged domestic producers. The new \$5.6 million ARBORITE® plant in Vaughan Township, near Toronto, is scheduled to be in production in July, 1971. This highly automated unit



The installation of an extrusion production line at the Laprairie, Quebec clay brick plant increased plant utilization by more than doubling the product line potential.

Construction Materials Sales
(Millions of Dollars)



will place the company in a strong competitive position and, with the new product lines scheduled for introduction early in 1971, will enable the company to maintain its leadership in decorative laminates. Arborite division operations in the United Kingdom, while not at a satisfactory level, did record a significant turnaround under new local management.

The Siporex division product line was reshaped during the year with the introduction of five foot wide panels and TOUGHTEX® exterior wall panels. This pre-finished panel for on-site economy of erection follows the trend of industrializing construction practices. A design consortium was also initiated with Crane Canada Limited and Canadian General Electric Co. Limited to undertake a study of industrialization of residential construction with two test units being constructed at Delson, Quebec. This program is receiving Federal Government financial support under the Program for the Advancement of Industrial Technology.

The 1971 outlook is one of relative optimism, particularly as it relates to residential construction. It is anticipated that the Federal Government will continue its strong support in this area and also that institutional construction will record gains through government initiation to alleviate unemployment. Commercial construction is being projected to be reactivated in the second half of the year. However, it is not expected that there will be any significant improvement in industrial construction.

Principal Products:

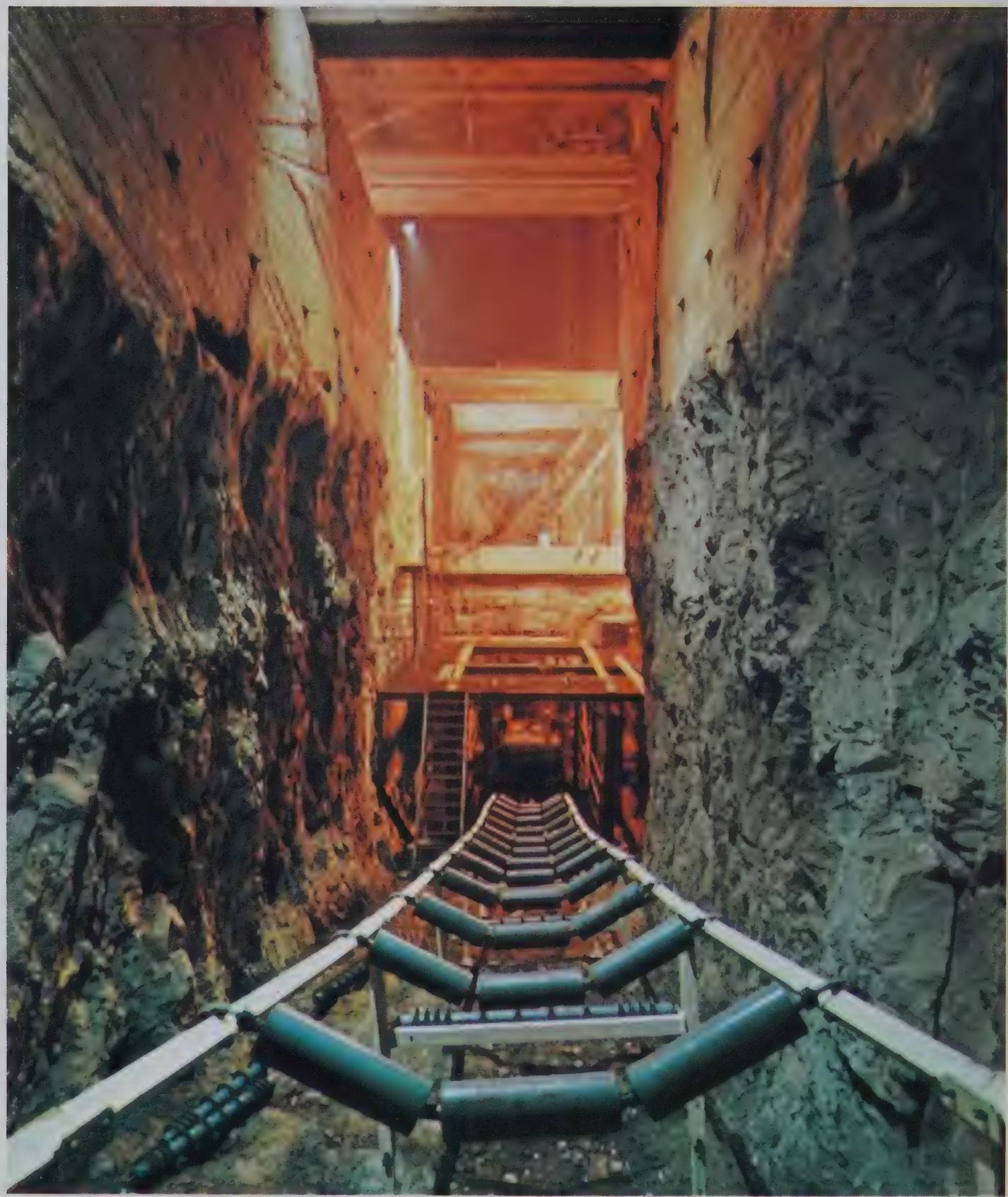
Clay brick; acoustical plasters, fibre conduit and sewer and drainage pipe; asphalt shingles; roll roofing and siding; roof, sheathing and panel board; ceiling tiles and grid panels; linear ceiling systems; partition systems; gypsum lath, plank and wall board, wall panelling; ARBORITE® decorative and industrial plastic laminates; SIPOREX® and TOUGHTEX® lightweight cellular concrete products; HAYDITE® lightweight aggregate; and plastic conduit.

®Registered Trade Mark

Expanded drying and handling facilities at the gypsum wallboard plant at New Westminster, British Columbia increased capacity well beyond expectations.



Expansion of the Sifto Salt mine at Goderich, Ontario will be completed in 1972.
Shown here is part of the new conveyor system under construction
1,800 feet below Lake Huron. The smooth walls in the upper part of the photograph
are salt, deposited on the rock bed millions of years ago by receding seas.





Operating profit results for 1970 were disappointing. On a 7% increase in sales, profits were below the level of the previous year. Substantially higher fuel and employee compensation costs, lower selling prices for some products and sluggish demand in several industries served by the company combined to reduce overall performance.

Sales of the Sifto Salt division were higher than in 1969 despite increased competition from domestic and foreign producers. Meeting the challenge of rapidly escalating costs requires a much higher rate of capital investment than in the past few years and a continuing innovation in marketing and distribution. A major expansion of the Unity, Saskatchewan plant was completed in 1969 and helped to improve the Western position in 1970. Currently, the annual capacity of the Goderich, Ontario rock salt mine is being increased in stages by 600,000 tons with completion expected in 1972. The exploratory drilling program on Cape Breton Island in Nova Scotia was concluded during the year. Studies are in progress to determine the economic viability of large scale salt production.

The decline in industrial and construction activity in 1970 reduced the sales of the Lime division below the level of the previous year. Profits were also severely affected by the spectacular and unexpected rise in fuel and labor costs which are the two most significant components in the cost of manufacturing lime and lime products. Some relief by means of modest price increases is expected in 1971. The hydrate plant at Joliette, Quebec, which began production in January, 1970, and a \$3 million high capacity lime kiln at Beachville, Ontario, which started up in September, are expected to provide some assurance of future growth. In the longer term, improvement is predicated on abatement of the current unprecedented cost pressures and additional investment in new facilities.

Sales of the Wood Preserving division did not attain the level forecast a year ago but were higher than in 1969. Depressed conditions in the Prairie Provinces and heightened competition from American treating companies in the British Columbia market were the major contributing factors. In addition, difficulties were encountered in purchasing some species of poles and a strike shut down the plant at Truro, Nova Scotia for four weeks. In market development and research, the division reported sound progress. New marketing areas are being opened and new products are in various stages of development. The innovating approach to the problems and prospects of this division reinforce the strong faith in the inherent economic significance of the wood preservation industry.

Early in the year the company announced the purchase of all the outstanding shares of Northwest Wood Preservers Ltd. of Dawson Creek, British Columbia. This company has rights to forest resources in the northern interior of British Columbia and is largely dependent on the income derived from sales of railroad ties and lumber. The extremely low selling prices prevailing throughout the year resulted in a substantial loss.

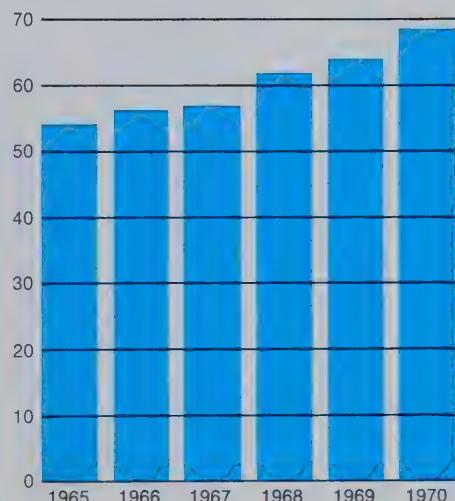
The Tar & Chemical division recovered somewhat from its depressed state in 1969 due to the improved demand for coal tar pitch during the last half of the year. However, the continuing erosion of selling prices in the chemical sector of the business retarded progress towards improved profitability and the position at year end was not satisfactory. A modest expansion in tar distilling facilities at Hamilton, Ontario was started in 1970. Greater availability of coal tar in the coming year and a further strengthening of the pitch market could lead to a major expansion there.

Results of the Metal Powders division were poor, largely due to the lack of growth in the total North American market and the tremendous overcapacity in the industry supplying the market. In the face of the adverse conditions prevailing, the division managed to increase its market participation which testifies to the continuing improvement in marketing skills and emphasis on research. The plant of Round Oak Steel Powders Ltd., in England, for which technical knowledge was supplied by Domtar, came into operation in September, 1970. The long range growth potential for iron-based powders for parts made by powder metallurgy techniques remains promising. In 1971, increased sales and further improvement in the share of the North American market is expected. However, the profit potential



The new 320-foot gas-fired rotary lime kiln at Beachville, Ontario provided the plant with needed capacity for a growing market.

Chemical Sales
(Millions of Dollars)



of this business cannot be realized as long as the current overcapacity situation in the industry remains.

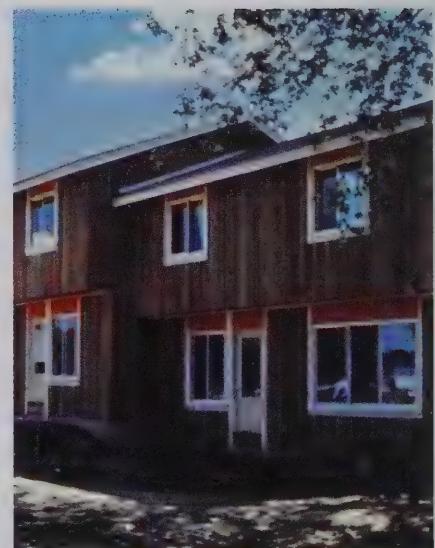
Chemical Developments of Canada Limited, unhampered by strikes during the year, increased sales and profits in 1970. Demand for surfactants and other specialty chemicals by the textile and pulp and paper industries reflected their slower operating rates. Chemicals and dyestuffs suffered some price deterioration but total volume and market position were well maintained.

Assuming an improved business climate, it is expected that performance in 1971 will be better than in 1970. The increased rate of capital investment during the past two years and continuation of this policy for the next few years, business conditions permitting, holds promise of increasing the growth rate of the company.

Principal Products:

SIFTO® salt; pressure-treated and fire-retardant wood; coal tar pitches and acids; creosote; naphthalene and phthalic anhydride; limestone; hydrated lime and quicklime; iron and iron alloy powders; synthetic detergents; wetting agents; carboxymethylcellulose; and dyestuffs and pigments.

®Registered Trade Mark



Permanent color and preservation for cedar siding in a single operation is one of the new processes developed by the Wood Preserving division.

CONSOLIDATED STATEMENT OF NET INCOME

For the year ended December 31

	1970	1969
Sales and revenues:		
Sales	\$484,937,840	\$464,803,162
Investment and sundry income	6,744,897	7,181,398
	<hr/> 491,682,737	<hr/> 471,984,560
Costs and expenses:		
Cost of sales and selling and administrative expenses	428,474,019	404,348,634
Depreciation	26,245,420	25,000,000
Interest on funded debt	8,601,330	9,021,823
Interest on other indebtedness	328,877	449,276
	<hr/> 463,649,646	<hr/> 438,819,733
Income before income taxes and minority interest	28,033,091	33,164,827
Current income taxes	10,350,000	9,904,156
Deferred income taxes — Note 5	(1,084,000)	2,081,038
Minority interest	1,149,446	1,176,526
	<hr/> 10,415,446	<hr/> 13,161,720
Net income for the year — Note 5	\$ 17,617,645	\$ 20,003,107
Earnings per common share (after preferred dividends)	\$ 1.17	\$ 1.33

CONSOLIDATED STATEMENT OF EARNED SURPLUS

For the year ended December 31

	1970	1969
Earned surplus, balance at beginning of year as previously reported	\$ 96,317,425	\$ 87,685,708
Adjustment in respect of prior years' income taxes — Note 5	3,090,000	896,000
	<hr/> 99,407,425	<hr/> 88,581,708
Earned surplus, balance at beginning of year as restated	173,515	—
Adjustment resulting from the review of depreciation practices — Note 2	<hr/> 99,233,910	<hr/> 88,581,708
	<hr/> 17,617,645	<hr/> 20,003,107
Net income for the year	116,851,555	108,584,815
Excess of cost of shares of subsidiary companies acquired in 1970 over the book value of their net assets	3,606,496	—
	<hr/> 113,245,059	<hr/> 108,584,815
Dividends on preference shares (\$1 per share)	300,000	300,000
Dividends on common shares (per share 1970 - \$.70; 1969 - \$.60)	10,379,110	8,877,390
	<hr/> 10,679,110	<hr/> 9,177,390
Earned Surplus, balance at end of year	\$102,565,949	\$ 99,407,425

CONSOLIDATED BALANCE SHEET

As at December 31

Assets

	1970	1969
Current assets:		
Cash and short-term investments	\$ 9,644,956	\$ 36,442,320
Receivables	86,558,598	75,156,765
Inventories of finished products, work-in process, raw materials and supplies, at lower of cost and net realizable value	69,558,215	58,377,476
Pulpwood, at cost, and expenditures on woods operations	25,263,442	28,923,419
Prepaid expenses	2,135,070	1,781,733
	<hr/> 193,160,281	<hr/> 200,681,713
Investments and advances, at cost:		
Listed securities (quoted value — 1970 — \$6,486,000; — 1969 — \$11,811,000)	13,319,969	13,319,969
Other investments and advances — Note 1	21,043,281	23,122,589
	<hr/> 34,363,250	<hr/> 36,442,558
Fixed assets, at cost: — Note 2		
Land and water power rights	6,477,016	6,480,174
Plant, machinery, facilities and timber limits	627,686,116	599,852,841
	<hr/> 634,163,132	<hr/> 606,333,015
Less: Accumulated depreciation	330,077,197	315,460,853
	<hr/> 304,085,935	<hr/> 290,872,162
	<hr/> <hr/> <hr/> \$531,609,466	<hr/> <hr/> <hr/> \$527,996,433

APPROVED BY THE BOARD:

T. N. Beaupré, Director

C. W. Webster, Director

Liabilities

	1970	1969
Current liabilities:		
Bank indebtedness	\$ 2,317,960	\$ 2,106,517
Payables	50,372,682	41,809,198
Income and other taxes	5,570,736	5,858,406
Dividends payable	2,519,289	2,532,233
Funded debt due within one year	355,000	1,700,000
	<hr/> 61,135,667	<hr/> 54,006,354
Funded debt: — Note 3	141,971,000	147,099,000
Deferred income taxes	<hr/> 64,043,000	<hr/> 53,654,493
Minority interests:		
Preferred shares of subsidiary companies — Note 4	18,282,400	19,199,450
Common share equity in subsidiary companies	3,817,628	3,835,200
	<hr/> 22,100,028	<hr/> 23,034,650
Capital:		
Capital stock —		
\$1 cumulative redeemable preference shares, par value \$23.50, redeemable at \$25 — Authorized and issued — 300,000 shares	7,050,000	7,050,000
Common shares without nominal or par value —		
Authorized — 20,000,000 shares		
Outstanding — 14,827,300 shares	132,743,822	132,743,822
Surplus resulting from restatement of certain fixed assets — Note 2	—	11,000,689
Earned surplus	<hr/> 102,565,949	<hr/> 99,407,425
	<hr/> 242,359,771	<hr/> 250,201,936
	<hr/> \$531,609,466	<hr/> \$527,996,433

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1970

Note 1 - Other Investments and Advances:

The amount shown includes \$2,215,290 of secured loans to the Trustees for employees under the company's stock purchase plan.

Note 2 - Fixed Assets and Depreciation:

As part of the company's program of standardizing its accounting procedures, a review of the fixed assets and related depreciation was carried out and modified depreciation practices were implemented as of January 1, 1970. The review resulted in the regrouping of fixed assets into broader classifications. Straight-line rates of depreciation, adjusted to reflect current estimates of useful lives, were retroactively applied to each classification; the adoption of these rates did not result in any significant effect on the net income for the year and accordingly 1969 figures were not restated.

The modified depreciation practices resulted in a charge to earned surplus of \$173,515 made up as follows:

Provision for additional deferred income taxes necessitated by the adjustment to accumulated depreciation and the reallocation of depreciation to assets, the amortization of which is not deductible for income tax purposes	\$11,511,507
Transfer of "surplus resulting from restatement of certain fixed assets" now considered to have been realized as a consequence of the appraised assets having become fully depreciated ...	11,000,689
	510,818
Adjustment to the net book value of fixed assets as at January 1, 1970	337,303
	\$ 173,515

Note 3 - Funded Debt:

Domtar Limited —

	Maturity	Amount
Sinking fund debentures —		
5 1/4 % Series "A"	1978	\$ 15,000,000
6 1/4 % Series "B"	1980	8,925,000
5 1/2 % Series "C"	1982	14,000,000
5 3/4 % Series "D"	1984	16,000,000
5 5/8 % Series "E"	1990	35,000,000
6 3/4 % Series "F"	1987	35,000,000
St. Lawrence Corporation Limited —		
First mortgage sinking fund bonds —		
5 % Series "A"	1972	6,336,000
4 3/4 % Series "B"	1972	2,304,000
5 % Series "C"	1978	6,980,000
Sinking fund debentures —		
6 3/4 % Series "A"	1980	12,200,000
		151,745,000
Less: Held for sinking fund		9,419,000
		142,326,000
Balance of instalments due within one year included in current liabilities		355,000
		\$141,971,000

Approximate instalments due in each of the next five years:

1971 - \$355,000; 1972 - \$8,083,000; 1973 - \$6,614,000;
1974 - \$6,677,000; 1975 - \$8,077,000

Note 4 - Minority Interests - Preferred Shares of Subsidiary Companies:

Howard Smith Paper Mills Limited —		
148,848 \$2 preferred shares of \$50 each, redeemable at \$52 1/2		\$ 7,442,400
St. Lawrence Corporation Limited —		
108,400 5 % preferred shares of \$100 each, redeemable at \$102 to May 15, 1971 and \$101 thereafter		10,840,000
		\$18,282,400

Note 5 - Income Taxes:

Agreement has been reached with the tax authorities with respect to the determination of income of certain of the company's production facilities which qualified for a three year tax exemption period. The 1969 accounts have been restated to reflect the effect of the agreement. The net income reported for 1969 has been increased by \$2,194,000 and reported income for years prior to 1969 has been increased by \$896,000.

Note 6 - Information on Directors and Officers:

Domtar Limited	Number	Remuneration
Directors	21	\$ 87,591
Officers	23	920,386
Officers who are also directors	1	

Note 7 - Pension Fund:

The company and its subsidiaries have pension plans for their employees. The unfunded past service pension liability at December 31, 1970 approximates \$6,600,000 and is being funded over the next twenty years as recommended by the actuaries.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the year ended December 31

	1970	1969
Source of funds:		
Net income	\$ 17,617,645	\$ 20,003,107
Depreciation	26,245,420	25,000,000
Deferred income taxes	(1,084,000)	2,081,038
	<u>42,779,065</u>	<u>47,084,145</u>
Decrease (increase) in investments and advances	2,079,308	(2,385,922)
Disposals of fixed assets	1,048,850	1,286,919
Common shares issued	—	1,701,504
	<u>45,907,223</u>	<u>47,686,646</u>
Application of Funds:		
Expenditures on fixed assets	40,012,987	25,896,050
Dividends on preference shares	300,000	300,000
Dividends on common shares	10,379,110	8,877,390
Reduction in funded debt	5,128,000	8,630,000
Reduction in minority interests	1,131,375	977,995
Excess of cost of shares of subsidiary companies acquired in 1970 over the book value of their net assets	3,606,496	12,256
	<u>60,557,968</u>	<u>44,693,691</u>
Increase (decrease) in working capital	(14,650,745)	2,992,955
Working capital at beginning of year	146,675,359	143,682,404
Working capital at end of year	<u>\$132,024,614</u>	<u>\$146,675,359</u>

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Domtar Limited and its subsidiaries as at December 31, 1970 and the consolidated statements of net income, earned surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the consolidated financial position of the companies as at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, February 2, 1971

Price Waterhouse & Co.
Chartered Accountants

HISTORICAL REVIEW

Financial (\$ Million)	1970	1969	1968	1967	1966	1965	1964
Net fixed assets	304.1	290.9	291.3	306.2	316.0	280.4	235.1
Net working capital	132.0	146.7	143.7	118.3	77.7	116.3	113.5
Investments and advances	34.4	36.4	34.0	52.5	27.1	24.7	22.0
Total net assets	470.5	474.0	469.0	477.0	420.8	421.4	370.6
Represented by:							
Funded debt	142.0	147.1	155.7	165.4	137.2	144.0	115.8
Deferred income taxes	64.1	53.7	51.6	52.4	47.8	42.1	25.6
Minority interest	22.1	23.0	24.0	25.1	26.1	27.3	27.9
Shareholders' equity	242.3	250.2	237.7	234.1	209.7	208.0	201.3
	470.5	474.0	469.0	477.0	420.8	421.4	370.6
Sales and Revenues:							
Pulp and Paper	335.7	310.1	279.0	272.0	272.3	255.3	240.5
Chemicals	68.7	64.0	62.0	57.5	56.3	54.1	47.8
Construction Materials	80.5	90.7	86.4	81.0	84.1	80.8	81.6
Consumer Products	—	—	—	17.5	17.4	16.6	16.1
Other revenues	6.7	7.2	4.7	2.0	2.0	2.5	2.1
	491.6	472.0	432.1	430.0	432.1	409.3	388.1
Income before taxes	26.9	32.0	20.7	14.9	30.3	41.4	42.2
Current income taxes	10.4	9.9	8.6	6.0	4.0	3.5	12.8
Deferred income taxes	(1.1)	2.1	(.7)	0.1	10.6	16.5	9.1
Net income	17.6	20.0	12.8	8.8	15.7	21.7	20.5
Cash flow	42.8	47.1	37.1	31.3	48.2	59.5	50.1
Capital expenditures (net)	39.0	24.6	10.1	16.4	57.6	66.5	28.9
Net income per common share	\$1.17	1.33	0.85	0.58	1.04	1.46	1.38
Cash flow per common share	\$2.86	3.16	2.51	2.11	3.27	4.05	3.41
Book value per common share	\$15.87	16.40	15.69	15.49	13.82	13.74	13.29
Pulp and paper production (Tons)							
Newsprint	480,114	542,434	520,127	521,856	586,976	532,151	507,115
Kraft Paper and Board	413,883	388,675	364,800	388,912	378,394	435,705	428,705
Fine and Specialty Papers	299,998	250,380	214,700	204,525	207,572	179,529	170,511
Market Pulp	297,400	294,800	221,700	223,683	191,868	195,572	182,169
	1,491,395	1,476,289	1,321,327	1,338,976	1,364,810	1,342,957	1,288,500

DOMTAR

Litho Canada

AR43**MAR 1970****NOTICE OF ANNUAL AND SPECIAL GENERAL MEETING
OF SHAREHOLDERS**

NOTICE IS HEREBY GIVEN THAT an Annual and Special General Meeting of the Shareholders of DOMTAR LIMITED will be held in Windsor Hall of the Windsor Hotel, Dominion Square, Montreal, Quebec on Tuesday, the 28th day of April, 1970 at 4:00 o'clock in the afternoon for the purposes of:

1. considering and, if deemed advisable, sanctioning and confirming, with or without modification, the following by-laws passed by the Board of Directors:
 - (a) By-law Twenty-seven, amending By-law XXIX of the Company by increasing from three hundred thousand (300,000) to four hundred thousand (400,000) the number of common shares of the Company which may be issued pursuant to Stock Purchase Plans for Employees;
 - (b) By-law Twenty-eight, decreasing the number of Directors of the Company from twenty-four (24) to twenty-one (21);
2. receiving and considering the Report of the Directors to the Shareholders, the financial statements of the Company for the year ended December 31, 1969 and the Auditors' Report thereon;
3. electing Directors;
4. appointing Auditors for the ensuing year; and
5. transacting such other business as may properly be brought before the meeting.

By Order of the Board,

S. A. KERR, C.A., F.C.I.S.
Vice-President and Secretary

Montreal, Quebec
March 11, 1970.

IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AND THAT YOUR WISHES BE MADE KNOWN. IF YOU CANNOT BE PRESENT TO VOTE IN PERSON, WOULD YOU PLEASE COMPLETE AND SIGN THE ENCLOSED PROXY FORM AND RETURN IT AS SOON AS POSSIBLE IN THE ENVELOPE PROVIDED.

INFORMATION CIRCULAR

(The information given herein is as of February 20, 1970)

SOLICITATION OF PROXIES

This information circular is furnished in connection with the solicitation by the management of Domtar Limited (the Company) of proxies for use at the Annual and Special General Meeting of the Shareholders of the Company to be held on April 28, 1970. The cost of solicitation will be borne by the Company.

VOTING AT THE MEETING

On February 20, 1970 the Company had outstanding 14,827,300 common shares without nominal or par value. The holders of such shares are entitled to one vote for each such share held.

Only shareholders of record as at the close of business on April 10, 1970 will be entitled to vote at and take part in the business of the meeting.

Argus Corporation Limited is the beneficial owner of record of more than 10% of the outstanding common shares of the Company, owning 2,500,000 common shares or 16.9% as at February 20, 1970.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are directors and/or officers of the Company. A shareholder desiring to appoint some other person (who need not himself be a shareholder but in the case of a corporation a person must have been duly authorized to act at the meeting) to represent him at the meeting may do so, either by inserting such person's name in the blank space provided in the form of proxy and deleting the names printed thereon or by completing another proper form of proxy and, in either case, delivering the completed proxy to the Secretary of the Company prior to the meeting.

A shareholder who signs and returns the enclosed form of proxy may revoke it at any time by notice in writing to the Company before it is acted upon.

CONFIRMATION OF BY-LAWS TWENTY-SEVEN AND TWENTY-EIGHT

By-law Twenty-seven will be submitted to the shareholders for sanction and confirmation at the Meeting. Approval of this by-law will amend By-law XXIX by increasing from three hundred thousand (300,000) to four hundred thousand (400,000) the number of shares which may be issued pursuant to Stock Purchase Plans for Employees.

By-law Twenty-eight will be submitted to the shareholders for sanction and confirmation at the meeting. Approval of this by-law will reduce the number of directors of the Company from twenty-four (24) to twenty-one (21).

VOTING OF SHARES REPRESENTED BY MANAGEMENT PROXY

The shares represented by any proxy in the form enclosed herewith and appointing the persons designated thereon or any of them to represent the shareholder at the meeting will be voted in accordance with the specifications given by the shareholder. IN THE ABSENCE OF SUCH SPECIFICATIONS, SUCH SHARES WILL BE VOTED FOR THE APPROVAL OF BY-LAWS TWENTY-SEVEN AND TWENTY-EIGHT, FOR THE APPROVAL OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS, FOR THE ELECTION OF DIRECTORS AND FOR THE APPOINTMENT OF AUDITORS AS STATED UNDER THOSE HEADINGS IN THIS CIRCULAR.

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice of the Meeting. The management is not aware of any other matters which will be presented for action at the meeting. If, however, other matters properly come before the meeting, the persons designated in the enclosed form of proxy will vote thereon in accordance with their judgment pursuant to the discretionary authority conferred by the proxy with respect to such matters.

ELECTION OF DIRECTORS

If By-law Twenty-eight is sanctioned and confirmed, the Board of Directors will consist of twenty-one members, all of whom are required to be elected annually. The persons named in the enclosed form of proxy intend to vote for the election of the nominees whose names are set forth below. Each director will be elected to hold office until the next Annual General Meeting of the Shareholders or until his successor is duly elected. In the event that prior to the Annual and Special General Meeting any vacancies occur in the slate of nominees submitted herewith, it is intended that the discretionary power granted by the form of proxy shall be used to vote for any other person or persons as directors. The management is not aware that any of such nominees would be unwilling to serve if elected.

The following persons are proposed to be nominated for election as directors of the Company:

Name	Present principal occupation or employment	Director since	Shares of the Company beneficially owned directly or indirectly as of February 20, 1970
*T. N. Beaupré	Chairman of the Board and President of Domtar Limited	1965	6,000 common shares
Ralph W. Cooper	President of Cooper Construction Company Limited	1959	1,700 common shares
*H. Roy Crabtree	Chairman and President of Wabasso Limited	1958	41,500 common shares
George H. Dobbie	President of The Dobbie Industries Limited	1959	200 common shares
Raymond Dupuis, Q.C.	Advocate and Company Director	1949	400 preference shares 1,000 common shares
†J. E. L. Duquet, Q.C.	Senior partner in the legal firm of Duquet, MacKay, Weldon, Bronstetter, Willis and Johnston	1961	814 common shares
*A. L. Fairley, Jr.	Chairman of the Executive Committee of the Board of Directors of Domtar Limited. President and Chief Executive Officer of Hollinger Mines Limited	1967	100 common shares
C. L. Gundy	Chairman of Wood Gundy Securities Limited	1958	1,000 common shares
Roger T. Hager	Chairman of the Board and Chief Executive Officer of The Canadian Fishing Company Limited	1959	115 common shares
J. G. Kirkpatrick, Q.C.	Partner in the legal firm of Ogilvy, Cope, Porteous, Hansard, Marler, Montgomery & Renault	1954	610 common shares
Camille Lacroix	President of Matapedia Company Limited	1968	1,000 common shares
Roger Létourneau, Q.C.	Senior Partner in the legal firm of Létourneau, Stein, Marseille, Bienvenue, Delisle & LaRue	1965	100 common shares

Name	Present principal occupation or employment	Director since	Shares of the Company beneficially owned directly or indirectly as of February 20, 1970
*A. Bruce Matthews, C.B.E., D.S.O.	Chairman of The Excelsior Life Insurance Company	1966	500 common shares
†*John A. McDougald	President of Argus Corporation Limited	1951	2,652 common shares
*Maxwell C. G. Meighen, O.B.E.	President of Canadian General Investments Limited	1964	1,000 common shares
Nathan Pitcairn	Director of The Pitcairn Company	1961	21,000 common shares
*Arthur Ross	Executive Vice-President and Managing Director of Central National Corporation	1961	500 common shares
*J. N. Swinden	General Manager of Argus Corporation Limited	1961	725 common shares
*E. P. Taylor, C.M.G.	Chairman of The New Providence Development Company Limited	1948	1,000 common shares
J. Thomas Timmins	President of Chromium Mining & Smelting Corp. Ltd.	1966	100 common shares
*Colin W. Webster	President of Canadian Fuel Marketers Ltd.	1952	20,000 common shares

*Members of Executive Committee

†The following directors own shares of St. Lawrence Corporation Limited, a subsidiary of Domtar Limited.

J. E. L. Duquet, Q.C.	8 common shares
John A. McDougald	100 common shares

REMUNERATION OF MANAGEMENT AND OTHERS

During the financial year of the Company ended December 31, 1969, the aggregate direct remuneration paid or payable by the Company and its consolidated subsidiaries to the directors and the senior officers of the Company was \$659,465.00. No amount was paid or is payable as direct remuneration to such directors or senior officers by unconsolidated subsidiaries of the Company.

The estimated aggregate cost to the Company and its subsidiaries in the financial year of the Company ended December 31, 1969 of all pension benefits proposed to be paid under any normal pension plan or plans in the event of retirement at normal retirement age, directly or indirectly, by the Company or any of its subsidiaries to the directors and senior officers of the Company was \$25,256.56.

Pursuant to any existing plan or arrangement, the aggregate of the future payments proposed to be made directly or indirectly by the Company and its subsidiaries to its directors and senior officers, while employed by the Company or its subsidiaries, is estimated to be \$110,000.00 per year up to a maximum of thirteen years, and following termination of employment annual payments which, when added to the aggregate of all amounts payable under normal retirement or pension plans of the Company and its subsidiaries, will total \$73,799.56 if termination occurs prior to December 31, 1970 increasing to a maximum of \$160,957.95 if employment continues to normal retirement age and all said benefiting directors and senior officers are then alive.

In accordance with the terms of the Stock Purchase Plan for Employees, directors and senior officers were granted options on April 29, 1969, to purchase immediately 17,800 common shares at a price of \$13.44 per share. Under these options, 17,800 common shares were issued to the said directors and senior officers on June 2, 1969. The price range of the common shares in the 30 day period preceding June 2, 1969 was \$15 to \$15½ .

APPOINTMENT OF AUDITORS

The management of the Company proposes to nominate Messrs. Price Waterhouse & Co., the present auditors, as auditors of the Company to hold office until the next annual meeting of shareholders. It is intended that the shares represented by proxies solicited by and on behalf of the management of the Company will be voted in favour of the appointment of Messrs. Price Waterhouse & Co. as auditors of the Company.

